AES WEALTH

Dimensional Fund Advisors

Why should you use them?

Contents

Dimensional Fund Advisors

Dimensional Fund Advisors (DFA) is the only fund manager founded on the basis of obtaining a return from the market by applying decades of academic research and experience. They apply an investment strategy which provides the investor with the market return without guessing the market.

Ethos and mission

DFA was founded in 1981 by academics David Booth and Rex Sinquefield of The University of Chicago's School of Business. It uses academic research to formulate investment strategy and has formal associations with prominent financial economists such as Eugene Fama who was awarded the Nobel Prize for Economics in 2013, and with Professor Kenneth French who has conducted decades of research into the empirical analysis of stock market returns.

Financial research identifies the sources of investment returns and Dimensional provides the tools and experience to target these sources and help investors achieve the return that they want. DFA do this by scientific asset allocation, diversification, reducing cost, managing risk, and applying proven trading strategies. This is quite unlike most other fund managers who guess the market and who are regularly shown to be wrong.

Traditional investment approaches strive to beat the market by taking advantage of pricing "mistakes" and attempting to predict the future. Too often, these approaches prove costly and futile. Predictions go awry and managers may hold the wrong securities at the wrong time, missing the strong returns that markets can provide. When you invest with DFA your investment is no longer speculation and it becomes simply a method for consistently obtaining the market return.

Guided by a strong belief in markets, DFA works to implement compelling ideas in finance for the benefit of clients. An enduring philosophy, strong client commitment, and deep working relationships with the academic community underpin their approach.

Their investment philosophy has been shaped by decades of research. They believe that security prices reflect all publicly available information as intense competition among market participants drives prices toward fair value.

Contents

Dimensional Fund Advisors

They use the information in market prices, combined with fundamental data, to systematically identify differences in expected returns among securities. They seek to add value by building portfolios that target higher expected returns in a cost-effective manner.

By integrating a dynamic, market-driven process with a flexible trading strategy, they manage the trade-offs that matter for performance— balancing competing premiums, diversification, and costs. This approach is applied consistently across a full suite of global and regional equity and fixed income strategies, allowing them to help meet the diverse needs of investors worldwide.

Putting financial science to work

DFA consider a 'dimension' to be a factor that explains differences in returns, demonstrates persistence through time and pervasiveness across markets, and is cost-effective to capture in diversified portfolios. These characteristics provide confidence that returns observed in historical data may appear in the future. From capital markets research over the past 50 years, DFA has gained a powerful understanding of the dimensions that generate higher expected returns.

In summary:

- Stocks have higher expected returns than bonds.
- Relative performance among stocks largely depends on company size (small vs. large), relative price (value vs. growth), and profitability (high vs. low). When setting prices, markets effectively apply different discount rates to stocks to reflect differences in underlying risk. The variables (or dimensions) of company size, and relative price, identify differences in these discount rates.
- In fixed income, two dimensions largely drive relative performance: term and credit. Longer-term bonds are more sensitive than shorter-term bonds to unexpected changes in interest rates. Bonds with lower credit quality have a greater risk of default than bonds with higher credit quality.
- By considering how much of each equity and fixed income dimension to target, investors can adjust the total expected return.

Contents

Dimensional Fund Advisors

Implementation makes a huge difference

Dimensional trades differently by pursuing the systematic performance of broad market dimensions, they can regard securities with similar characteristics as close substitutes for one another. This affords flexibility in what securities to trade and when to trade them, resulting in more negotiating power. By staying patient when others are compelled to buy and sell, Dimensional can keep costs low and seek to improve results.

The result is investment performance driven by a potent combination of philosophy, process, and execution.

Traditionally, managers do one of two things: They focus on picking individual securities, or they attempt to mimic the performance of arbitrary benchmarks. They may hold too few securities or act on market predictions, interest rate movements, and they may rely solely on information from third-party analysts or rating services.

Dimensional chooses a different path by designing strategies based on research rather than speculation or the need to track commercial indices. DFA builds portfolios along the dimensions that drive expected returns.

Dimensional chooses Advisers which is the opposite of all other fund managers.

Unlike traditional fund managers where advisers can place business immediately, advisers must complete rigorous training at their own expense before they can recommend Dimensional funds to their clients. DFA want to be satisfied the adviser's knowledge, understanding, and business processes share an affinity with their own. In addition, advisers are encouraged to follow a program of continual education and improvement.

Facts and figures

- Investment management business founded in 1981
- Thirteen offices in nine countries; portfolio management and trading on four continents
- More than 1,400 employees
- Global assets under management (in USD) $540 billion as of September 2022

AES recommends Dimensional Fund Advisors because of their proven investment strategy and low costs.

Contents

Dimensional Fund Advisors

AES and Dimensional share the same core investment principles:

1. Capital Markets work: investors are consistently rewarded for investing their capital in the market
2. Risk and Return are related. An investor should aim to obtain the market return without taking unnecessary risks
3. Diversification is essential to minimise risk and achieve the market return on investment
4. Costs must be minimised and eliminated where possible to increase investment net return
5. Portfolio asset allocation is the key determinant of investment return
    a. Equity return is determined by market, size, value, and profitability
    b. Fixed Income return is determined by term and default risk
6. An Investor's behaviour has a significant effect on investment return

DFA provide a proven investment strategy which gives clients the market return and removes speculation and guesswork.

DFA is neither an active manager nor a passive manager. It follows a scientific asset allocation process which has low operating costs and almost eliminates trading costs.

DFA will provide the investor with the market return over time plus in addition DFA portfolios are expected to produce 1% to 2% above the market return. This additional return is achieved through the application of research knowledge to tilt the portfolio in terms of company value, company size, and company profitability. This has now reliably been achieved for more than 38 years since inception.

The annual management charges (AMCs) are much lower than AMCs from actively managed funds but fractionally higher than some purely passive funds. A client pays only marginally higher fees than passive funds but obtains something of real value in return. AES does not believe that blindly following a tracker fund simply to save of the order of 0.1% p.a. is either prudent or productive.

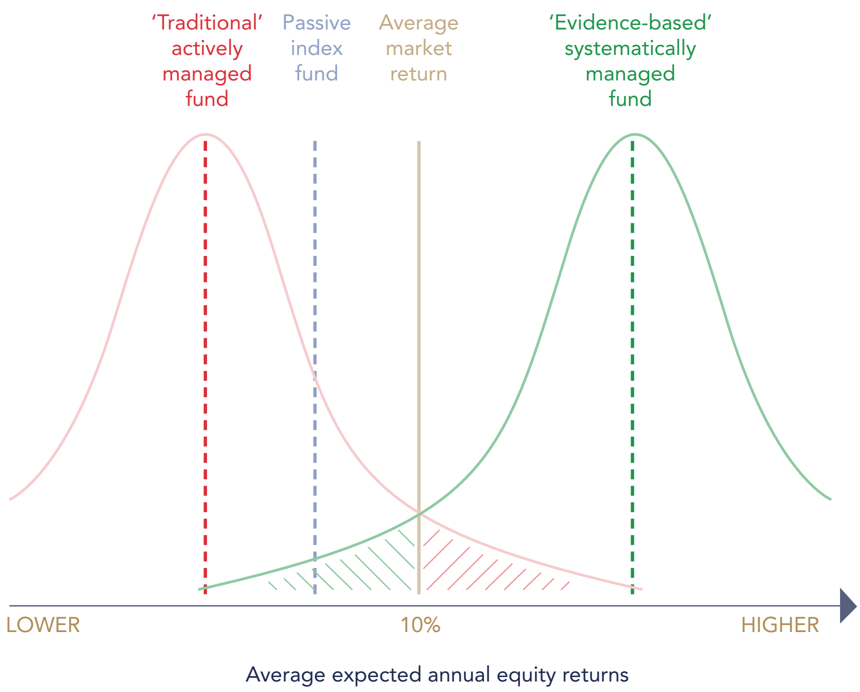
Contents

Dimensional Fund Advisors

In addition, the Costs of Trading are minimised and almost eliminated, and this could potentially reduce costs by another 1% or 2% a year. The removal of this 'hidden' cost means that Dimensional funds can be cheaper than most other funds because of their lower AMCs in combination with their very low trading costs. We believe that the total cost reduction of Dimensional funds in comparison with many active funds could be as much as 3% per annum.

Funds are only available through advisers because of the belief that advice is important. Research has shown that investors who do not take advice get consistently lower returns over time because of poor investor behaviour. Dalbar (www.dalbar.com) has been following investor returns since 1994 and they have consistently shown that investment results are more dependent on investor behaviour than on fund performance. They show that the average unadvised investor receives over three percent per annum (over 3% p.a.) less by making the wrong decisions and taking those decisions at the wrong times.

The intelligent investor realises not only that costs are important but also that they are not the only factor in making fund choices. The intelligent investor understands that on-going advice is a price worth paying to ensure that guidance is available at all times. Dimensional is the fund manager chosen by many institutional investors who have billions to invest and AES is proud to be able to provide the ordinary investor with access to these funds so that they can share in the same advantages.



Contents

Dimensional Fund Advisors

Alternatives to Dimensional

Each individual client's circumstances and requirements are considered before making a recommendation.

For some clients cost and diversification may not be their main criteria. For example, ethical investments can be recommended to clients who prefer this approach and these portfolios may or may not include Dimensional.

For those investing smaller amounts who do not require advice or wish to 'DIY', AES recommends Vanguard funds or BlackRock iShares. Other clients may require more bespoke investment portfolios and AES helps and advises those clients as they require.

However, for most of our typical clients, Dimensional provides them with good value at low cost. Recommendations are kept under regular review and model portfolios assessed annually.

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Engage with us:

hello@aesinternational.com

www.aesinternational.com